

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

Klacking Township
Ogemaw County, Michigan
Financial Report
With Supplemental Information
March 31, 2007

KLACKING TOWNSHIP

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-7
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fiduciary Funds:	
Statement of Net Assets	13
Statement of Changes in Net Assets	14
Notes to Financial Statements	15-23
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund	24
Budgetary Comparison Schedule - Road Fund	25
Budgetary Comparison Schedule - Fire Fund	26



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INDEPENDENT AUDITOR'S REPORT

Township Board
Klackung Township
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Klacking Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Klacking Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Klacking Township as of March 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The board's discussion and analysis and budgetary comparison information on pages 2 through 7 and pages 24 through 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
July 18, 2007

Management's Discussion and Analysis

As management of Klacking Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$703,863 (*net assets*). Of this amount, \$265,810 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations.
- The Township's total net assets increased by \$59,130.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$355,374, an increase of \$28,492 in comparison with the prior year. The fund balance in the General Fund is \$266,876 at March 31, 2007, 75% of the total fund balances. The fund balance in Road Fund is \$88,374. The fund balance in the Fire Fund is \$124.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$266,876 or 211% percent of total general fund expenditures. Fund balances in the Road Fund and Fire Fund were \$88,374 and \$124, or 320% and 1% of total Road Fund and Fire Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued interest payable).

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works, and recreation and culture. The Township has no business-type activities as of and for the year ended March 31, 2007.

The Government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund and Fire Fund.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Road Fund and Fire Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 13-14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-23 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$703,863 at the close of the most recent fiscal year.

A portion of the Township's net assets (50%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township's Net Assets

	Governmental Activities 3/31/07	Governmental Activities 3/31/06
Current and Other Assets	\$ 357,266	\$ 329,987
Capital Assets, Net	519,010	503,693
Total Assets	\$ 876,276	\$ 833,680
Current Liabilities	2,958	4,262
Long-term Liabilities Outstanding	169,455	184,685
Total Liabilities	\$ 172,413	\$ 188,947
Net Assets:		
Invested in Capital Assets, Net of Related Debt	349,555	319,008
Restricted	88,498	55,221
Unrestricted	265,810	270,504
Total Net Assets	\$ 703,863	\$ 644,733

The Township's net assets increased by \$59,130 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$4,694 or 2%, during the fiscal year ended March 31, 2007.

Township's Changes in Net Assets

	Governmental Activities 3/31/07	Governmental Activities 3/31/06
Revenue:		
Program Revenue:		
Charges for services	\$ 3,612	\$ 3,388
Operating Grants and Contributions	-	-
General Revenue:		
Property Taxes	140,771	129,017
State-Shared Revenues	44,094	44,851
Interest Earnings	11,213	7,495
Other	2,699	3,183
Total Revenue	\$ 202,389	\$ 187,934
Expenses:		
General Government	\$ 89,485	\$ 77,979
Public Safety	20,003	20,338
Public Works	23,907	26,891
Recreation and Culture	1,550	850
Interest on Long-Term Debt	8,314	8,026
Total Expenses	\$ 143,259	\$ 134,084
Increase in Net Assets	59,130	53,850
Net Assets, Beginning of Year	644,733	590,883
Net Assets, End of Year	\$ 703,863	\$ 644,733

Governmental activities. The Township's total governmental revenues increased by \$14,455 from last fiscal year. This was primarily attributed to than increase in property tax revenue of \$11,074. Expenses increased by \$9,175. The increase was attributable primarily to increased general government expenses for wages and town hall operating expenses.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$355,374, an increase of \$28,492 in comparison with the prior year. The General Fund portion of the fund balance is \$266,876, which is available for spending at the Township's discretion. The fund balance in the Road Fund is \$88,374, available for Township road costs. The fund balance in the Fire Fund is \$124, available for Township fire protection costs.

The General Fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$266,876. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The entire General Fund balance is unreserved and represents approximately 211% of total general fund expenditures.

The fund balance of the General Fund decreased by \$4,785 during the current fiscal year.

The fund balance of the Road Fund increased by \$33,153 during the current fiscal year.

The fund balance of the Fire Fund increased by \$124 during the current fiscal year.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The budgets were not amended during the year.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounted to \$519,010 (net of accumulated depreciation). Investment in capital assets includes land, infrastructure, vehicles and equipment. Additions totaled \$35,379 for the fiscal year. Infrastructure additions were \$23,483 and other additions were \$11,896.

Township's Capital Assets (net of depreciation)

Land	\$	14,175	\$	14,175
Land improvements		32,273		33,996
Infrastructure		222,333		210,444
Buildings and improvements		238,914		238,794
Furniture and Equipment		11,315		6,284
<hr/>				
Total	\$	<u>519,010</u>	\$	<u>503,693</u>

Additional information on the Township's capital assets can be found in note 5 on page 20 of this report.

Long-term debt. The Township currently has one installment loan with a balance of \$169,455. The loan proceeds were used in the 2004/2005 fiscal year to finance the construction of a new Township hall.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2007-2008 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2006-2007, the Township general fund received \$41,960 in state shared revenue, representing 35% of the revenues in the general fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

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Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Klacking Township
Supervisor's Office
405 N Campbell Road
West Branch, Michigan 48661

Klacking Township
Statement of Net assets
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 338,559
Accounts receivable	188
Due from governmental units (Note 4)	18,519
Capital assets-net (Note 5)	<u>519,010</u>
Total assets	<u>876,276</u>
 Liabilities	
Accounts payable	1,219
Accrued and other liabilities	1,739
Noncurrent liabilities (Note 7):	
Due within one year	15,230
Due in more than one year	<u>154,225</u>
Total liabilities	<u>172,413</u>
 Net Assets	
Invested in capital assets, net of related debt	349,555
Restricted:	
Road Fund	88,374
Fire Fund	124
Unrestricted	<u>265,810</u>
Total net assets	<u>\$ 703,863</u>

See accompanying notes

Klacking Township
Statement of Activities
Year ended March 31, 2007

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants	Net (Expense)
				Revenue and
				Changes in
				Net Assets
Governmental Activities				
General government	\$ 89,485	\$ 3,612	\$ -	\$ (85,873)
Public safety	20,003	-	-	(20,003)
Public works	23,907	-	-	(23,907)
Recreation and culture	1,550	-	-	(1,550)
Interest on long term debt	8,314	-	-	(8,314)
Total governmental activities	\$ <u>143,259</u>	\$ <u>3,612</u>	\$ <u>0</u>	\$ <u>(139,647)</u>
General Revenues:				
Property taxes				140,771
State revenues				44,094
Interest and investment earnings				11,213
Other				<u>2,699</u>
Total general revenues				<u>198,777</u>
Change in Net Assets				59,130
Net assets - beginning of year				<u>644,733</u>
Net assets - end of year				\$ <u>703,863</u>

See accompanying notes

Klacking Township
Governmental Funds
Balance Sheet
March 31, 2007

	General Fund	Road Fund	Fire Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 243,782	\$ 83,061	\$ 11,716	\$ 338,559
Accounts receivable	-	-	-	-
Due from other funds	13,530	-	-	13,530
Due from other governmental units	11,456	5,313	1,750	18,519
Total assets	<u>\$ 268,768</u>	<u>\$ 88,374</u>	<u>\$ 13,466</u>	<u>\$ 370,608</u>
Liabilities				
Accounts payable	\$ 1,219	\$ -	\$ -	\$ 1,219
Accrued and other liabilities	673	-	-	673
Due to other funds	-	-	13,342	13,342
Deferred revenue	-	-	-	-
Total liabilities	<u>1,892</u>	<u>-</u>	<u>13,342</u>	<u>15,234</u>
Fund balances				
Unreserved:				
General Fund	266,876	-	-	266,876
Special Revenue Funds	-	88,374	124	88,498
Total fund balances	<u>266,876</u>	<u>88,374</u>	<u>124</u>	<u>355,374</u>
Total liabilities and fund balances	<u>\$ 268,768</u>	<u>\$ 88,374</u>	<u>\$ 13,466</u>	<u>\$ 370,608</u>
 Fund Balances - Total Governmental Funds				\$ 355,374
Elimination of due to and due from governmental funds				
Due to				13,342
Due from				(13,342)
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.				
The cost of capital assets is			\$ 579,695	
Accumulated depreciation is			<u>(60,685)</u>	
				519,010
Long term liabilities are not due and payable in the current period and are not reported in the fund				
Installment purchase				(169,455)
Accrued interest is not included as a liability in governmental funds				(1,066)
 Net Assets of Governmental Activities				\$ <u>703,863</u>

See accompanying notes

Klacking Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended March 31, 2007

	General Fund	Road Fund	Fire Fund	Total Governmental Funds
Revenues				
Taxes and penalties	\$ 63,350	\$ 58,075	\$ 19,346	\$ 140,771
State revenues	41,960	2,134	-	44,094
Charges for services	3,612	-	-	3,612
Interest and rentals	10,774	358	81	11,213
Other	1,867	132	700	2,699
Total revenues	<u>121,563</u>	<u>60,699</u>	<u>20,127</u>	<u>202,389</u>
Expenditures				
Current:				
General government	81,017	-	-	81,017
Public safety	-	-	20,003	20,003
Public works	8,250	4,063	-	12,313
Recreation and culture	1,550	-	-	1,550
Capital outlay	11,896	23,483	-	35,379
Debt service:	-	-	-	-
Principal retirement	15,230	-	-	15,230
Interest	8,405	-	-	8,405
Total expenditures	<u>126,348</u>	<u>27,546</u>	<u>20,003</u>	<u>173,897</u>
Excess of Revenue Over (under)				
Expenditures	(4,785)	33,153	124	28,492
Other Financing Sources (Uses)				
Transfers in (Note 4)	-	-	-	-
Transfers out (Note 4)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(4,785)	33,153	124	28,492
Fund balances - Beginning of year	<u>271,661</u>	<u>55,221</u>	<u>-</u>	<u>326,882</u>
Fund balances - End of year	<u>\$ 266,876</u>	<u>\$ 88,374</u>	<u>\$ 124</u>	<u>\$ 355,374</u>

See accompanying notes

Klacking Township
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	28,492
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$	(20,062)	
Capital Outlay		<u>35,379</u>	15,317

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental fund until paid		91
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Repayments of installment purchases principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		<u>15,230</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>59,130</u></u>
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See accompanying notes

Klacking Township
Fiduciary Funds
Statement of Net Assets
March 31, 2007

	Trust Fund- Pension Fund	Agency Funds
Assets		
Cash	\$ -	\$ -
Investments - at fair value	65,980	188
Total assets	65,980	<u>\$ 188</u>
 Liabilities		
Due to other funds	-	188
Total liabilities	-	<u>\$ 188</u>
 Net Assets - Held in Trust for Pension Benefits	<u>\$ 65,980</u>	

See accompanying notes

Klacking Township
Fiduciary Funds
Statement of Changes in Net Assets
Year ended March 31, 2007

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	\$ 6,450
Employee	-
Investment earnings	<u>7,225</u>
Total Additions	13,675
 Deductions	
Benefits	-
Administrative expenses	<u>857</u>
Total deductions	857
 Net decrease	 12,818
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>53,162</u>
End of the year	<u><u>\$ 65,980</u></u>

See accompanying notes

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Klacking Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

The Fire Fund is used to record property tax revenue, interest earnings and other revenue restricted for fire protection purposes.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulates resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2006 taxable value of the Township was \$21,768,190. The 2006 tax levy was 2.1072 mills for general operating purposes, 2.6588 mills for the Road Fund and .8858 for the Fire Fund, raising \$45,863 for general operating purposes, \$57,874 for roads and \$19,279 for fire protection purposes.

Inventories and Prepaid items - Inventories are not significant amounts at year end. Inventory is recorded as expenditures when purchased. Payments to vendors reflecting costs applicable to future fiscal years are recorded as prepaid items in both government wide and fund financial statements, if applicable.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20- years

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no township employees are provided with sick or vacation pay benefits.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as other bond expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. The adopted budgets did not include fund balance information as required by P.A. 621 of 1978.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. During the year there were no amendments to the budgets.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
<u>General Fund:</u>			
General Government	\$ 72,675	\$ 81,017	\$ 8,342
Capital outlay	-	11,696	11,696
Principal retirement	-	15,230	15,230
Interest	-	8,405	8,405
Road Fund - Capital outlay	-	23,483	23,483

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 3 - Deposits and Investments

At year-end the Township's deposits and investments were deposited in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Township Total
Cash and cash equivalents	\$ 338,559	\$ 188	\$ 338,747
Investments	-	65,980	65,980
Total	<u>\$ 338,559</u>	<u>\$ 66,168</u>	<u>\$ 404,727</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and certificates of deposit)	\$ 333,747
Investments - Pension plan	65,980
	<u>\$ 399,727</u>

Investment and deposit risk:

Interest rate risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Township's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Township has no investments for which ratings are required.

Custodial credit risk - deposits

In the case of deposits, there is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State law does not require and the Township does not have a policy for custodial credit risk. At March 31, 2007, \$144,174 of the Township's bank balances of \$349,184 was exposed to custodial credit risk because it was uninsured.

The Township Board is authorized to designate depositories for Townships funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The Township's deposits are in accordance with statutory authority.

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 4 - Receivables

Receivables as of the year-end for the Township's major funds are as follows:

	General	Road	Fire	Total
Intergovernmental	\$ 11,456	\$ 5,313	\$ 1,750	\$ 18,519

Note 5 - Capital Assets

Capital assets activity of the Township's governmental activities were as follows:

Capital assets not being depreciated:	Balance 4/1/06	Additions	Deletions	Balance 3/31/06
Land	\$ 14,175	\$ -	\$ -	\$ 14,175
Capital assets being depreciated:				
Infrastructure	220,131	23,483	-	243,614
Land improvements	47,465	-	-	47,465
Buildings	245,154	5,496		250,650
Furniture & equipment	17,391	6,400	-	23,791
Subtotal	<u>544,316</u>	<u>35,379</u>	<u>-</u>	<u>579,695</u>
Accumulated Depreciation				
Infrastructure	9,687	11,594	-	21,281
Land improvements	13,469	1,725	-	15,194
Buildings	6,360	5,374		11,734
Furniture & equipment	11,107	1,369	-	12,476
Subtotal	<u>40,623</u>	<u>20,062</u>	<u>-</u>	<u>60,685</u>
Net capital assets being depreciated	<u>503,693</u>	<u>15,317</u>	<u>-</u>	<u>519,010</u>
Governmental Activities				
Total Capital Assets net of Depreciation	<u>\$ 503,693</u>	<u>\$ 15,317</u>	<u>\$ -</u>	<u>\$ 519,010</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General Government	\$ 8,468
Public works	11,594
Total governmental activities	<u>\$ 20,062</u>

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 6 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 13,530	General Fund	\$ -
Road Fund	-	Road Fund	-
Fire Fund	-	Fire Fund	13,342
Fiduciary Funds	-	Fiduciary Funds	188
Total	<u>\$ 13,530</u>	Total	<u>\$ 13,530</u>

Note 7 - Long-term Debt

The Township entered into an installment purchase agreement with DeShano Construction Company for the construction of a new Township hall. The installment purchase agreement was assigned to Chemical Bank and Trust Company. The installment purchase agreement is a general obligation of the Township.

The installment purchase agreement can be summarized as follows:

Installment purchase

Interest rate - 3.89% per annum

Rate to be adjusted every five years to a rate equal to the then current rate on the five (5)-year U.S. Treasury Note

Annual payments of \$15,230.40 plus interest, beginning February 1, 2005

Payable in full on February 1, 2019

Beginning balance	\$ 184,685
Additions	-
Reductions	<u>(15,230)</u>
Ending balance	<u>\$ 169,455</u>
Due Within One Year	<u>\$ 15,230</u>

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 7 - Long-term Debt (Continued)

INSTALLMENT PURCHASE

Annual debt service requirements to maturity for the Installment purchases are as follows:

Year Ended March 31,	Governmental Activities		
	Principal	Interest	Total
2008	\$ 15,230	\$ 6,592	\$ 21,822
2009	15,230	5,999	21,229
2010	15,230	5,407	20,637
2011-2015	76,150	18,147	94,297
2016-2019	47,615	3,854	51,469
Total	<u>\$ 169,455</u>	<u>\$ 39,999</u>	<u>\$ 209,454</u>

Note 8 - Risk Management

Klacking Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 9 - Pension Plan

Klacking Township has a defined contribution plan for elected officials through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participants benefits that may be allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. The Township is required to contribute an amount equal to 20% of the employee's gross earnings to the plan.

Klacking Township
Notes to Financial Statements
March 31, 2007

Note 9 - Pension Plan (Continued)

During the year, the Township's required and actual contributions amounted to \$6,450, which was 20% of its current year covered payroll . There were no voluntary employee contributions. Covered payroll was \$26,510. Total payroll was \$30,258. All elected officials are covered by the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or as the close of the fiscal year.

Note 10 - Joint Area Fire Board

Klacking Township appropriates funds for fire protection and provides fire department services through the Rose City Area Fire Board. The Fire Board serves the Townships of Cumming, Klacking and Rose, as well as the City of Rose City.

The following financial information of the fire board, obtained from the Fire Board Secretary, is as of December 31, 2006:

Total Assets	\$ 106,966	Total Revenues	\$ 104,124
Total Liabilities	3,101	Total Expenditures	70,025
Total Equity	103,865	Increase in fund balance	34,099

The net assets of the Fire Board as of December 31, 2006 were \$231,884. The Township's equity interest in the Fire Board is \$76,892.

The most recent biennial audit was as of December 31, 2006. A copy of the financial statements may be obtained from the Treasurer of the Rose City Area Fire Board at the Fire hall in Rose City, Michigan.

Required Supplemental Information

Klacking Township
Budgetary Comparison Schedule - General Fund
Year ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
	(Note 2)	(Note 2)		(Note 2)
Fund Balance - Beginning of year			\$ 271,660	
Resources (Inflows)				
Taxes and fees	46,950	46,950	63,350	16,400
Licenses and permits				-
State revenues	45,082	45,082	41,960	(3,122)
Charges for services	3,000	3,000	3,612	612
Interest and rentals	4,500	4,500	10,774	6,274
Other			1,867	1,867
Transfers from other funds	3,000	3,000		(3,000)
Amounts available for appropriation	(Note 2)	(Note 2)	<u>393,223</u>	(Note 2)
Charges to Appropriations (Outflows)				
General government	72,675	72,675	81,017	(8,342)
Public safety			-	-
Public works	22,750	22,750	8,250	14,500
Recreation and culture	1,550	1,550	1,550	-
Capital outlay	-	-	11,896	(11,896)
Debt service				-
Principal retirement	-	-	15,230	(15,230)
Interest	-	-	8,405	(8,405)
Total charges to appropriations	<u>96,975</u>	<u>96,975</u>	<u>126,348</u>	<u>(29,373)</u>
Fund Balance - end of year	(Note 2)	(Note 2)	<u>\$ 266,875</u>	(Note 2)

Klacking Township
 Budgetary Comparison Schedule - Road Fund
 Year ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
	(Note 2)	(Note 2)		(Note 2)
Fund Balance - Beginning of year			\$ 55,221	\$ (Note 2)
Resources (Inflows)				
Taxes and fees	57,002	57,002	58,075	1,073
State revenue	2,500	2,500	2,134	(366)
Interest and rentals	250	250	358	108
Other	-	-	132	132
Amounts available for appropriation	(Note 2)	(Note 2)	<u>115,920</u>	(Note 2)
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	20,000	20,000	4,063	15,937
Recreation and culture	-	-	-	-
Capital outlay	-	-	23,483	(23,483)
Debt service	-	-	-	-
Total charges to appropriations	<u>20,000</u>	<u>20,000</u>	<u>27,546</u>	<u>(7,546)</u>
Fund Balance - end of year	(Note 2)	(Note 2)	\$ <u><u>88,374</u></u>	(Note 2)

Klacking Township
 Budgetary Comparison Schedule - Fire Fund
 Year ended March 31, 2007

	Original Budget (Note 2)	Amended Budget (Note 2)	Actual	Variance with Amended Budget (Note 2)
Fund Balance - Beginning of year			\$ -	
Resources (Inflows)				
Taxes and fees	16,502	16,502	19,346	2,844
Charges for services	-	-	-	-
Interest and rentals	1,006	1,006	81	(925)
Transfers from other funds	5,000	5,000	700	(4,300)
Amounts available for appropriation	<u>22,508</u>	<u>22,508</u>	<u>20,127</u>	<u>(Note 2)</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	22,000	22,000	20,003	1,997
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>22,000</u>	<u>22,000</u>	<u>20,003</u>	<u>1,997</u>
Fund Balance - end of year	\$ (Note 2)	\$ (Note 2)	\$ <u>124</u>	\$ (Note 2)



ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 69 • 103 E. Main Street • Rose City, Michigan 48654

Phone (989) 685-2411 • Fax (989) 685-2412

Other office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

July 18, 2007

To the Township Board
Klackung Township
Ogemaw County, Michigan

We have audited the financial statements of Klacking Township for the year ended March 31, 2007, and have issued our report thereon dated July 18, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Klacking Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Klacking Township are described in Note 1 to the financial statements. No new accounting policies were implemented during the year ended March 31, 2007. We noted no transactions entered into by Klacking Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Klacking Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Klacking Township, either individually or in the aggregate, indicates matters that could have a significant effect on Klacking Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Klacking Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Other Comments

Payment of invoices

The Township occasionally sends a pre-signed blank check with a board member for out-of – town purchases of office supplies or equipment. This practice has since been replaced with establishing charge accounts when needed with vendors. Checks should not be signed in advance by the officials responsible for signing checks. Invoices should be submitted for payment and review in accordance with the Township policy.

Budget format

The budget document submitted for adoption by the Board is required to include the actual revenue, expenditure and fund balance information for the previous year, projected revenue, expenditure and fund balance information for the current year and the proposed budgeted revenues, expenditures and ending fund balance. The estimated revenue and expenditures for the current fiscal year is to be arrived at by using actual revenue and expenditures to date and estimating revenues and expenditures tot the end of the fiscal year. The projected revenue and expenditure information was not included in the proposed budget. The worksheet provided in the Uniform Budget Manual would be a useful resource to assure compliance with P.A. 621 of 1978 when adopting future budgets.

This information is intended solely for the use of the Township Board and management of Klacking Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants



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Rodney C. Robertson, CPA

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July 18, 2007

Township Board
Klacking Township
Ogemaw County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major funds of Klacking Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Klacking Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township Board's financial statements that is more than inconsequential will not be prevented or detected by the Township Board's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township Board's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Township Board, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township Board's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Cause: This condition was caused by the Township Board's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township Board to perform this task internally.

Effect: The result of this condition is that the Township Board lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The Township Board has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township Board to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Township Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants